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SUBJECT: SARKOZY ADDRESSES FRANCE ON THE ECONOMY

¶1. (SBU) Summary: In a 90-minute broadcast on the economic crisis, President Sarkozy said he and German Chancellor Merkel will insist on "structural change" in the international financial system at the G20 Summit in London. France must focus on employment to get out of the crisis, he said, inviting business and unions to meet February 18 to discuss ways to reduce the negative impact of the crisis on the most vulnerable members of society. End summary.

¶2. (U) One week after more than a million people participated in nationwide demonstrations focused on the economic crisis, President Sarkozy invited a small panel of journalists to the Elysee Palace for a 90-minute serial interview on the crisis and his plans to manage its social impact. Questions and answers were interspersed with street interview footage of French citizens who expressed their complaints, fears, expectations and comments.

#### International Approaches Needed

¶3. (U) Stating that he had imposed the November G20 Summit on Washington, Sarkozy said that he and Chancellor Merkel will insist on structural changes to the international financial system at the April London Summit. He recognized that the U.S. is the "top world power" but insisted that France and the EU "won't pay the U.S. debt," and that the U.S. "cannot come to London and insist that everything continue as before." He said he has "zero room to negotiate" on measures concerning tax havens, explaining that the enormous private wealth as well as debt and toxic assets that they concealed can be destabilizing to the international financial system. He called for the creation of global economic governance either through the IMF or a "college" of supervisors of banks and financial actors, insisting that all financial institutions, including hedge funds and special investment vehicles, needed to be regulated. He sharply criticized rating agencies' "detestable" performance and said work was needed on remuneration, including for traders.

#### Europe Needs to Speak Up

¶4. (U) When asked about the EU's role, Sarkozy stressed the need for EU members to "pull together" with "discipline and solidarity." This was essential, he said, both to defend the euro and to defend European values in the remaking of the international economic system.

#### Domestic Management of the Crisis' "Social" Impact

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15. (U) Sarkozy expressed sympathy for the plight of the most vulnerable in society who are suffering from the crisis through no fault of their own. He defended support provided to banks, stressing that it didn't cost taxpayers "one centime" and the interest payments would provide an additional 1.4 billion euros for social programs. The key is to encourage employment, which would be created by the infrastructure projects and incentives for innovation that are in the government's stimulus package. He said he rejected a consumption-oriented stimulus package, citing the UK VAT-reduction experiment as evidence that it wouldn't work. That said, he favored a targeted reduction of the VAT to encourage investment, e.g., in "green" vehicles and buildings. He also said he would continue his reform agenda, explaining to his audience that the over-sized state was a drag on the dynamic private economy.

#### Consultation with the "Social Partners"

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15. (U) Sarkozy announced a February 18 meeting at the Elysee for business and unions to address the social impact of the crisis. Further steps on unemployment, the working poor, the business side of employment, and profit sharing will be the focus. If these "social partners" reach agreement, he will take their proposals on board, otherwise, Sarkozy said, the GOF will legislate a solution. On unemployment, for instance, he asserted it is better to keep workers on the payroll part time than to lay them off. He suggested that low-wage workers needed more help which might be possible through a combination of child subsidies and income tax breaks. In order to encourage hiring he proposed eliminating the locally collected "professional tax" on business assets that makes French firms less competitive. Sarkozy said such steps were critical to

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reducing industrial outsourcing. Emphasizing the need for profit-sharing, Sarkozy said there should be a discussion of how profits are apportioned between shareholders, investment and employees, though the appropriate level might not be national but rather at the company or the sector level.

#### Reactions

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16. (SBU) French union leaders cautiously welcomed the president's proposals but also noted that most of them didn't go far enough to help workers. Most unions would like to see more government-sponsored jobs and an increase to the minimum wage. President Sarkozy specifically ruled out a minimum wage increase during the broadcast, saying it would not help enough people. Representatives of the business community have not yet spoken out, but in recent conversations with Embassy have expressed concern about governmental "meddling" in private business matters (e.g., remuneration) in its efforts to be pro-active on the crisis.

17. (SBU) Comment: The president's meeting with unions and business on February 18 is a way of getting concern over the economic crisis' social impact off the streets and onto the negotiating table. In vintage Sarkozy fashion, the president bruted some vague proposals for the meeting with populist rhetoric to take some of the wind from the opposition's sails. Because shareholders had insisted on "ridiculous" returns "on the backs of workers," profit-sharing would be one theme of the upcoming consultations (the president said he thought an even split among shareholders, employees and reinvestment might be an appropriate rule-of-thumb for the disposition of profits). How much of Sarkozy's populism reflects his world view, and how much is political gambit, is not always clear, we suspect, even to Sarkozy himself. But the president's ability, and willingness, to claim victory when the mountain gives birth to a mouse will likely be at a premium as he navigates the months to come. For now, Sarkozy, speaking without notes, demonstrated a mastery of the details of France's economic performance in turning questions into opportunities to get his points across and to reassure the French public that everything possible was being done. End Comment.

18. (U) The full interview of President Sarkozy (no translation) can be viewed at [www.elysee.fr](http://www.elysee.fr).

